



Canadian Tax & Legal Alert

Update on Canada's Digital Services Tax: Government plans to rescind the tax and halt June 30, 2025 collections

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Context

The Canadian Digital Services Tax (DST) was proposed as part of the 2021 Federal Budget to address concerns that large multinational digital companies were not paying sufficient taxes on revenues generated from Canadian users.

The DST was designed as a 3% tax on certain Canadian revenue streams of large businesses, specifically targeting online marketplaces, digital advertising services, social media platforms, and sale of user data, with global revenues of at least €750 million during a fiscal year of the group that ended in the prior calendar year and Canadian digital services revenues of more than \$20 million in the particular calendar year. One of the most controversial aspects of the DST was its retroactive application: although the legislation was not enacted until 2024, it was structured to apply to revenues earned as far back as January 1, 2022. Even though the government's intentions were clearly announced prior to 2022, this retroactivity raised significant concerns among affected businesses and international partners, particularly the United States.

The DST was also introduced in the context of ongoing global negotiations at the Organisation for Economic Co-operation and Development (OECD), where countries have been working toward a coordinated approach to taxing the digital economy. Canada had indicated that its DST would serve as a temporary measure, to be repealed once an acceptable multilateral solution was reached. However, delays in the OECD process and ongoing trade tensions contributed to uncertainty for businesses operating in Canada's digital economy.

Government decision to rescind and halt June 30, 2025 tax

On June 29, 2025, the government of Canada announced its intention to rescind the DST and confirmed that collections scheduled for June 30, 2025, will be halted. This decision follows ongoing discussions with stakeholders and international partners, as well as feedback from affected businesses. The government's announcement means that organizations subject to the DST are no longer required to remit payments for the June 30, 2025 deadline.

Administrative guidance: Payments and refunds

For entities that have already filed DST returns but have not yet made payments, the government's announcement means that payment should not be remitted at this time. Organizations are encouraged to document this decision in their internal working papers, clearly outlining the rationale based on the government's public statement.

As for refunds, the Canada Revenue Agency (CRA) has indicated that DST payments will be returned to taxpayers following passage of legislation. In previous communications, the CRA stated that the CRA DST mailbox would be used to facilitate refund requests, but given the anticipated volume of requests, it is unclear whether this process will remain unchanged. Businesses should monitor official government channels for updates and be prepared to take action once guidance is issued.

Legislative process and legal status

Although the government has made its intentions clear, it is important to note that the DST remains legally in force until the underlying legislation is formally rescinded. Rescinding the DST requires a Bill to be introduced and passed by both the House of Commons and the Senate, followed by Royal Assent. With Parliament currently in recess, the earliest possible date for new legislation to be introduced is September 15, 2025. Until the legislative process is completed, the DST remains part of Canadian law.

Accounting and financial reporting considerations

From an accounting perspective, international accounting standards such as IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) require that only currently enacted or virtually certain to be enacted laws and regulations be considered when estimating provisions arising from legislation and/or regulation. In our view, this threshold would apply equally to the derecognition and/or remeasurement of existing provisions and would require the rescission of the existing legislation or regulation to be virtually certain before reversals or adjustments are made. This means that, despite the government's announcement on June 29, 2025, businesses should continue to recognize DST-related liabilities and maintain existing provisions until the legislation is rescinded or virtually certain to be rescinded. Further, in our view, businesses that have paid the DST

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on or prior to June 30, 2025, would not recognize a receivable for the refund of such amounts prior to a change in the underlying legislation that permits such a refund.

There remains significant uncertainty around the final timing and outcome of the proposed plan to rescind the DST. IFRS requires financial statement disclosure of such uncertain events and the significant judgments made by management in preparing their financial statements. Accordingly, organizations in scope of the DST should update their financial statement disclosures to reflect the current legal status of the DST, while noting the government's intention to rescind the tax and any potential impacts on future periods.

Next steps for businesses

- Continue to recognize DST liabilities and provisions in financial statements until the law is formally rescinded and provide appropriate disclosures.
- Update disclosures to reflect the government's recent announcement and any anticipated impacts.
- Do not remit DST payments for the June 30, 2025 deadline if not already paid, and document this decision internally.
- Monitor for further guidance from the government of Canada regarding refund procedures and legislative developments.
- Consult with professional advisors to ensure compliance and appropriate disclosure based on your organization's specific circumstances.

Conclusion

While the government of Canada's announcement to rescind the DST and halt collections is a significant development, businesses must continue to comply with existing laws and accounting standards until the legislative process is complete.

How can Deloitte help?

Deloitte professionals will continue to monitor the legislative process and additional details for the changes to the DST.



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